



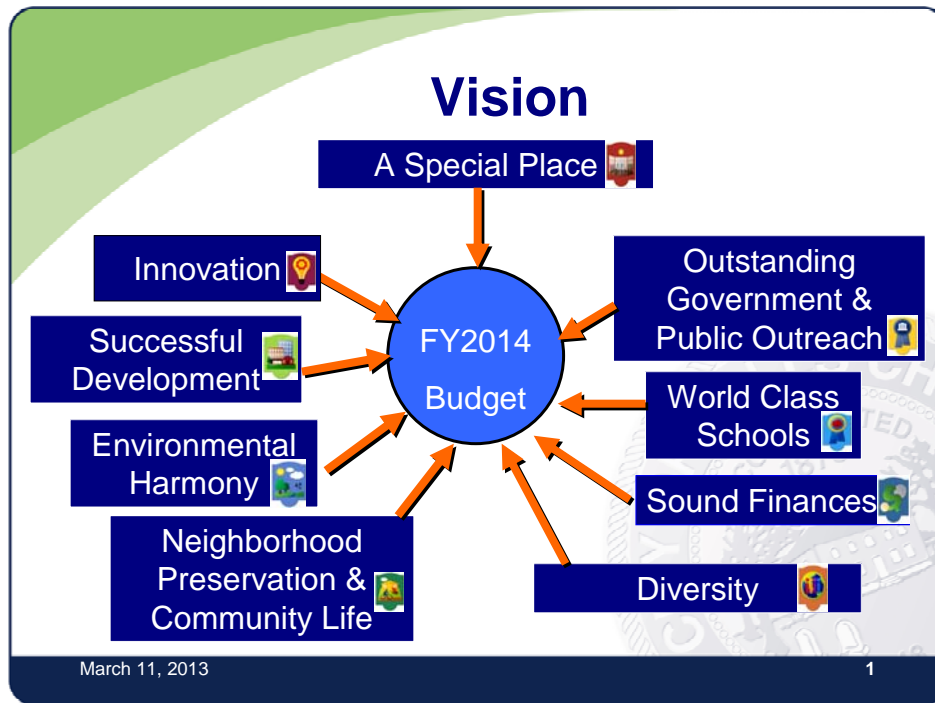
FY2014 Budget Frequently Asked Questions: Budget 101

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What is a Budget?

The answer is two-fold. First and foremost it is the expression of the City Council and community's vision for 2025. The graphic expresses this relationship:



The budget is also the financial plan that identifies the revenues and expenditures that ensures that core local government services are delivered. These services include: police, fire, courts, trash and recycling, storm water, water and sewer, road maintenance and snow removal, recreation and parks, library and public schools. The budget includes both operating (the daily expenses of operations) and capital (infrastructure items with a longer useful life cycle). The proposed Fiscal Year 2014 (FY2014) budget is available via www.fallschurchva.gov/Budget. Additionally, all the PowerPoint presentations, materials, and videos from Council meetings are available via www.fallschurchva.gov/Webcasts.

What is the City's Fiscal Year?

The fiscal year is the time frame that represents the budgeting period for the government. For the City of Falls Church, the fiscal year (FY) is July 1 to June 30. (For example, FY2014 runs July 1, 2013 through June 30, 2014.) This differs from the real estate assessment period which is a calendar year (CY) of January 1 to December 31.

What is the Budget Process?

The City's budget process for the next fiscal year starts in the fall when staff identifies service needs, Council develops and adopts the annual budget guidance for the City Manager, and the Chief Financial Officers presents revenue and expenditure trends and projections. Over the winter months the staff work with the City Manager to develop the proposed budget with is traditionally presented in March. The budget is then reviewed and revised through a series of town hall and work session meetings. The budget is adopted by Council adoption of an ordinance, for both operating and capital revenue and expenditures, which requires two public hearings and formal readings. The FY2014 budget is scheduled for adoption on April 22, 2013.

How Can the Public Have a Voice in the Budget Deliberations?

Residential and commercial tax payers can express their input regarding the level of city services and the tax rates by speaking at Council public hearings and town hall meetings (schedule posted at www.fallschurchva.gov/Budget) or by sending emails to Council (Cityclerk@fallschurchva.gov) and the specific budget email box (budget@fallschurchva.gov).

Budget updates are posted to www.fallschurchva.gov/Budget.

What is the Proposed Tax Rate?

The proposed FY2014 budget requires a 6 cent increase or \$1.33 per \$100 of assessed property value; this provides for a 3.9% increase to the general government operations which is aligned with economic growth and a 12.9% increase for the public schools funding request. The FY2013 tax rate is \$1.27 per \$100 of assessed property value.

What is the Advertised Tax Rate?

The advertised FY2014 tax rate is \$1.41 per \$100 of assessed property value. The advertised tax rate is usually set higher than the proposed tax rate to provide flexibility in the budget discussions. The final tax rate can not be approved at a level higher than what was advertised to the tax payers.

How Does the City's Proposed Tax Rate Compare to Other Localities?

The following is a summary chart as of mid-March but not all localities have announced. The City of Falls Church proposed rate is \$1.33, up 6 cents from the current FY2013 rate.

Regional Rates

	Proposed RE Tax rates	RE Rate Change*
Manassas Park	1.65	-
Town of Leesburg	1.425	(0.5) cents
Manassas City	1.364	-
Town of Herndon *	1.36	2 cents
Town of Vienna	1.332	2 cents
City of Falls Church	1.33	6 cents
Loudoun County	1.23	(0.5) cents
Fairfax County	1.095	2 cents
City of Fairfax	1.09	8 cents
City of Alexandria	1.053	5.5 cents
Arlington County	1.003	3.2 cents
*Proposed		

What is the General Fund? Enterprise Fund? School Transfer?

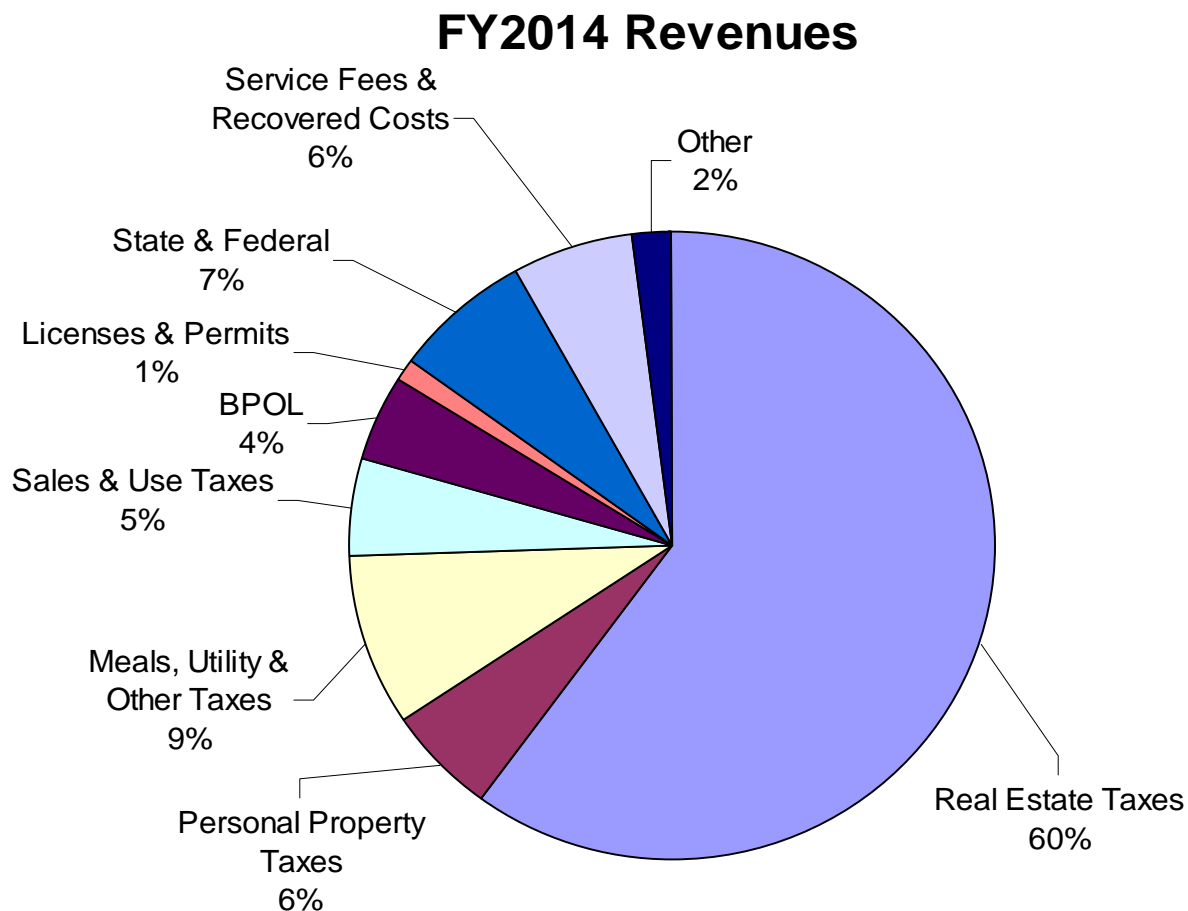
The General Fund is one of several that forms the City's budget. The General Fund contains all revenue and expenses related to core services.

Enterprise Funds are the separate, self-sustaining funds to water and sewer public utilities that are fully funded by user fees.

The School Transfer is comprised of the local tax dollars that fund 80% of the Falls Church City Schools.

What is the Breakdown in Revenues that the City Collects?

The pie chart and the table below outline the information that illustrates the revenue from the proposed 6 cent tax increase.



Revenue Summary

(General Fund)

	Adopted FY2013	Proposed FY2014	\$ Change	% Change
Real Estate Taxes	\$ 41,319,000	\$ 44,728,000	\$ 3,409,000	8.3%
Personal Property	3,911,500	4,302,700	391,200	10.0%
Meals, Utility & Other Taxes	6,336,600	6,724,000	387,400	6.1%
Sales Tax	3,795,000	3,848,600	53,600	1.4%
Business Licenses	3,023,000	3,316,000	293,000	9.7%
Building Permits	543,210	776,000	232,790	42.9%
State & Federal	4,298,022	5,444,590	1,146,568	26.7%
Service Charges	4,393,772	4,467,985	74,213	1.7%
Other	1,697,600	1,378,500	(319,100)	-18.8%
Total	\$ 69,317,704	\$ 74,986,375	\$ 5,668,671	8.2%

March 11, 2013

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What is the Change in Assessed Value of Residential and Commercial Properties?

The chart below shows a 2.9% increase for calendar year 2013. Based on a report prepared by the State of Virginia, the City's property assessment is very accurate.

Calendar Year 2013 Assessed Values:

Single Family:	+ 3.5%
Townhouses:	+ 3.6%
Condominiums:	+ 1.0%
Commercial:	+ 1.6%
Apartments:	+ <u>5.0%</u>
Overall	+ 2.9%

2011 Statistics: Sales to assessed value ratio: 95.7%
Co-efficient of Dispersion: 7% (4th best in Virginia!)

March 11, 2013

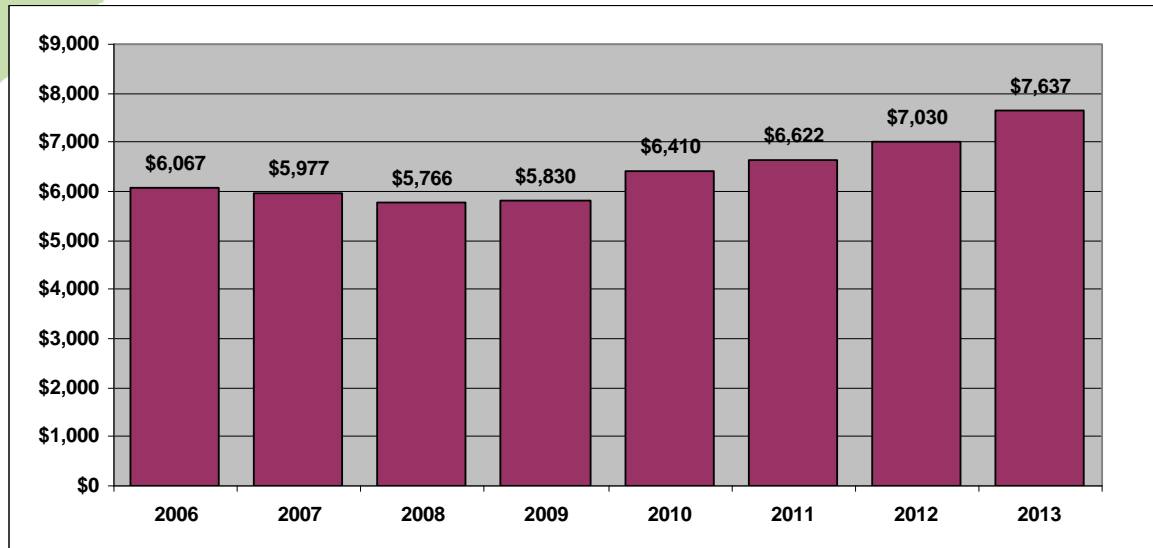
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How Have the Tax Rate and Real Estate Property Assessment Values Changed My Homeowner Tax Bill?

Tax rate and assessed value are key components of a homeowner's tax bill. The chart below shows the overall change from 2006 to 2013 and reflects a 3.3% increase.

(See chart next page.)

Median Home Owner Property Tax Bill



In 2013, \$262 due to assessment growth; \$345 increase due to tax rate increase.

3.3% per year increase in median tax bill since 2006

March 11, 2013

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Fund Balance and Reserves

What is the Fund Balance?

The Fund Balance is the liquid, unassigned portion of the City's new assets. In short, it is the amount of cash on hand. The City relies on the Fund Balance to meet cash flow requirements through the year, as revenues do not come in consistently from one month to the other. For instance, real estate property taxes are billed twice a year, personal property taxes once a year, and business taxes once a year.

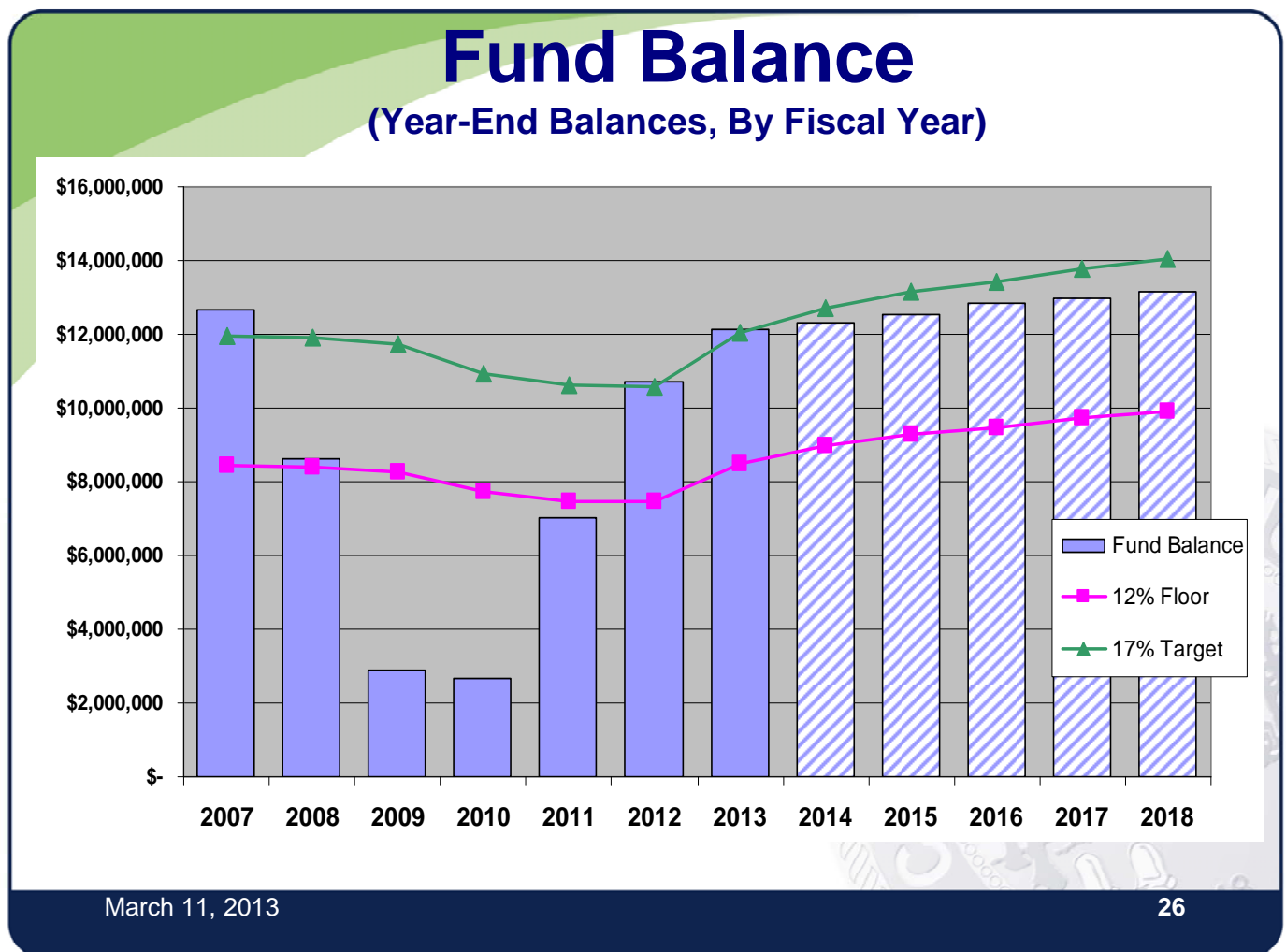
What is the Fund Balance Policy?

The Fund Balance is a key measure of financial condition as it reflects the City's ability to meet its obligations. The City's unassigned Fund Balance is \$12 million in the current year (FY2013), which is in compliance with the policy target of 17% of annual expenditures (i.e., two months of expenses, which is \$12,023,506).

How Was the Percentage Calculated?

This policy target reflects best financial management practices and is typical for jurisdictions of the City's size. The Moody's Investor Service report on 2010 U.S. Local Government Medians provides data gathered from 2,985 cities that issued general obligation bonds. In general, cities with bond ratings of "A" to "Aaa" (the highest Moody's rating) have unassigned fund balances ranging from 17.63% to 18.40% of expenditures. Total fund balances, including capital reserves, range between 27% and 32% of expenditures. Highly-rated small jurisdictions must maintain higher fund balances as they are more susceptible to swings in revenue and expenditures. The City has historically maintained a Fund Balance

above the current policy target of 15%, but in 2010 is dipped down to 4% (which was \$2.7 million of annual expenditures) due to the recession, water litigation, and other necessities. (See chart below.)



What Happens if the City Falls below or Goes above 17%?

The availability of the unassigned Fund Balance is used to measure the government's ability to pay its debt under any and all circumstances. From the bond holder's perspective, the more unassigned Fund Balance, the less likelihood of default on debt payment. Importantly, a healthy Fund Balance demonstrates a commitment to prudent financial practices by top management and the elected body. This, along with other measures of risk, is reflected in the interest rate charges for borrowings.

What is the City's Current Debt Obligation?

The City currently has \$35.5 million in local tax-supported general obligation debt. The Capital Plan calls for the issuance of an additional \$131 million in debt (including major school projects) in the next five years. It is not realistic to consider entering the bond markets for borrowing these amounts unless the City's Fund Balance is equal to or above those of the City's peer jurisdictions. Accordingly, if the City is to accomplish school and other capital improvements, it is necessary to maintain a healthy Fund Balance and fund capital reserves.

Is 17% Typical for Governments the Size of the City?

The range for a City our size (less than 50,000 population) is from 18.29% to 19.89%. In larger jurisdictions like Fairfax County, Arlington County, City of Alexandria and Fairfax City, the range is 0% to 12%. In comparable-sized jurisdictions such as the Towns of Vienna, Herndon and Leesburg and the Cities of Manassas and Manassas Park, the range is 4% to 23%. Note these unassigned amounts do not reflect assigned reserves which address items such as operational reserves, revenue stabilization reserves and reserves for future budgets which lower the amounts of unassigned reserves needed.

What are the capital reserves? How do they differ from the fund balance? For what are they used?

Capital Reserves are funds set aside now to pay for known capital projects in the future. Beginning in FY2014, the City proposes the creation of a \$500,000 Capital Reserve Fund to address future capital needs. This is in accordance with the financial policies adopted in 2011. Capital Reserves lower the amount of indebtedness and allow significant projects (such as the construction of a new school) to be accomplished in an affordable manner.

What is Debt Service?

Debt Service is the obligation the City incurs when it borrows money in the financial marketplace. Like a home mortgage, Debt Service includes principle and interest. The City typically issues debt in the form of tax-exempt municipal bonds with a term of 20 years.

The City's current outstanding debt includes \$28 million for school facilities and \$6.5 million for general government facilities (Community Center, Fire Station) for a total of \$35.5 million in outstanding debt. The City spends \$4.4 million per year (6% of the total General Fund budget) to repay principle and interest on this debt.

What is "Pay as You Go"?

A sound Capital Plan relies on both "Pay as You Go" (PAYGo) and debt-funded reinvestment. The City budget includes \$600,000 in funding for PAYGo capital projects, including City Hall repairs and street improvements.